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The effects of privatization on marketing capability and activity in Poland

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Abstract

Privatization has been a major element of reform in Central and Eastern Europe, however its effects on firm marketing capability and performance are unclear. This study tests a number of hypotheses concerning the effects of privatization on marketing capability, activities and performance in Poland. The main conclusions are that privatization leads to enhanced marketing capability, to more pro-active marketing activities, such as the adoption of longer term priorities, to an emphasis on delivering superior quality to customers and to more active new product development. On both financial and market-based criteria, the privatized firms are seen to outperform their state-owned counterparts.

Keywords: Marketing capability; Privatization

1. Introduction

Conventional wisdom holds that the privatization of industry is necessary for a successful transition from central planning to the free market in Central and Eastern Europe (Arendarski et al., 1994; Buckley and Ghauri, 1994; Estrin, 1994a; Ewing et al., 1993; Hare, 1994; Krawczyk and Lopez-Lopez, 1993). Under the former socialist system, excess demand was endemic and state-planned industrial policies centred on the achievement of production targets by protected state-owned enterprises (SOEs). Conversely, it is expected that liberalization and privatization will engender radical shifts in company orientations, practices and performances and, through these, major long-term improvements in national income and economic well-being (Hare, 1993; Healey, 1994; Naor, 1994; Tovias, 1994; Estrin, 1994a; Lieberman, 1993). Indeed, the destinies of many countries in Central and Eastern Europe are currently dependent on the realization of these expected outcomes. The reforms have already facilitated free trade with attractive Western countries and incentivised Western foreign direct investment to enhance transfers of capital, technology, managerial expertise and labour skills (Frydman et al., 1993; Glowacki, 1991; Lyles and Baird, 1994; Neimans, 1993; Wright et al., 1993).

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The growth effects of the transition have been the most pronounced in Poland (Shaffer, 1993; Business Central Europe, 1994, 1997). Indeed, with Hungary, Poland has emerged as the front-runner in the shift toward the free market system (Vanous, 1992; Buckley and Ghauri, 1994; Tietz, 1994). Although Poland continues to experience macro-economic problems, it is the only country in Central and Eastern Europe to have exhibited GDP growth in successive years 1992–1996 albeit from a low base (Vanous, 1992; Business Central Europe, 1997). Due to this, coupled with its US$136 billion GDP and 38 million population, Poland is now perceived in the USA as the most important market in its region (Mowrey, 1994). Moreover, Poland's legislative model relating to macro-economic control, liberalization and privatization has substantially influenced policy formulation among other countries in transition (Shaffer, 1993).

Consideration of Poland's extensive privatization progress and its impressive recent growth performance might tentatively suggest the existence of a relationship between privatization and growth. However, the economic growth of Poland has not been without significant social costs. Inflation rates have been at unprecedented levels, particularly in the early transition period, and unemployment, once unheard of in the days of the planned economy, reached one in six of the workforce in 1993. Consequently, many Poles have questioned the wisdom behind the changes brought about and a consequence has been much political upheaval as the fortunes of political parties have waxed and waned.

Most recent figures (Business Central Europe, 1997) show GDP growth at 7.7% for the first half of 1997, inflation stable at 14.5% (August 1997), and unemployment down below expectations at 10.6% (September 1996). Since the economic recovery of 1992–1993 the private sector share of GDP has continued to grow (through both privatization of state-owned firms and the emergence of new, private enterprises), inflation has stabilized (albeit at higher levels than in its western neighbors) and unemployment now stands at similar levels to Western Europe.

While the social consequences of the transition in general, and the privatization program in particular, are worthy of more detailed study they are outside the scope of this paper (for discussion of these issues see, for example, Kennett and Liebermann, 1992; Estrin, 1994c; Witztum, 1994). Our purpose here is to examine the micro-economic effects, at the firm level, of the privatization process and to assess what economic benefits, if any, derive. Theoretical and conceptual behavioural and performance-related effects of privatization were briefly referred to earlier and are more fully-developed later. However, there has been little or no published systematic empirical research to determine whether, how or to what extent wholesale privatization of industry, as experienced in Poland, influences business behaviour and performance. This paper attempts to provide some insight in the Polish context. Specifically, it compares findings on marketing capabilities, activities and performance among samples of firms that remain wholly state-owned and those that were state-owned but have now been privatized domestically. Firms that have been privatized through foreign direct investment (as has been the norm in Hungary, for example) are omitted from the analysis so as not to confound the effects of foreign intervention (capital and know-how) with the effects of privatization. It is expected that the conclusions may be of interest to scholars of marketing, economics and politics and to policy-makers in Poland and further afield.

Section 2 provides some perspective on the transition in Poland. Sections 3–5, respectively present the research hypotheses, the research methodology and the results. Section 6 provides a discussion.

2. Perspective: Transition in Poland

Transition from a centrally-planned economy to a market economy typically involves three sets of strategies (Estrin, 1994a; Shaffer, 1993). First, strategies for the achievement of macro-economic stability. Second, liberalization measures such as the abolition of price controls, the removal of state monopoly restrictions and the discontinuance of state directives for production targets. Third, strategies for the wholesale transfer of the ownership of industry and commerce from SOEs to the private sector.

2.1. Liberalization and macro-economic stability

Some attempts to liberalise the Polish economy were made by the previous communist regime in the

1980s. The prices of some products were allowed to find market levels and much of the state planning of production was abandoned nominally, although not informally. However, these steps were accompanied by chronic mismanagement of the macro-economy. When the Solidarity-led government gained power in Autumn 1989 prices were hyper-inflating at over 30% per month, the half-yearly government deficit exceeded 25% of GDP, both output and foreign currency reserves were plummeting (government debt was around US$40 Bn) and product shortages were pervasive (Shaffer, 1993).

Attempts to redress these problems began under the Balcerowicz Plan by the new government in the 'Big Bang' in January 1990. Market-clearing prices, import freedom and privatization of retailing were introduced immediately and product shortages disappeared. However, control of the macro economy was elusive. One problem involved imperfections in the supply of money owing to the virtual insolvency of the Polish banking system with a large exposure to non-performing loans which, among other consequences, restricted foreign direct investment in Poland (Reier, 1994). In addition, Poland was harshly affected by the global recession of the early 1990s. Industrial output fell by 36% and GDP fell by 19% in the two years 1990–1991. However, similar performances on these measures were recorded in other transitional countries and it is possible that short-term macro-economic dislocation is an inescapable consequence of transition (Tietz, 1994).

Notwithstanding this latter point, while Polish unemployment had been virtually zero prior to the 'Big Bang', it escalated from 6% in 1990 to 16% in 1993 before falling to 11% at the end of 1997 (Business Central Europe, 1997). Moreover, control of inflation was being constrained by a persistently high budget deficit due largely to a sharp diminution in tax revenue and the political necessity for the provision of high personal pensions and other social payments. While some progress has been made on controlling inflation it remains a problem. Specifically, it was reduced from 554% in 1990, to 35% in 1993, to the improved but nevertheless still high level of 14% in 1997 (Business Central Europe, 1997).

More positively, however, recent stabilization measures augur well for improvement. The budget deficit was reduced from 6% of GDP in 1992 to 2.5% in 1996, industrial output growth increased from 3% in 1992 to 8.5% in 1996 while GDP growth improved from 2.6% to 6.2% over the same time (Business Central Europe, 1997).

2.2. Privatization

Privatization began under communist administration during the 1970s and 1980s. By 1989, 23% of total employment was in private agriculture and 10% was in the private non-agricultural sector (Gomulka and Jasinski, 1994). Nevertheless, the vast majority of industrial activity remained under state ownership. Lieberman (1993) has assessed the characteristics and consequences of SOEs. These include highly centralised, over-staffed and politicized organizations; over-dependence on state subsidisation; corrupt practices; inefficiency and poor competitive capability; poor financial and export performance; exclusion of foreign and domestic rivals; and vehicles for capital flight. In accord with the eradication of these problems, various authors have discussed the key objectives of privatization (e.g., Lieberman, 1993; Estrin, 1994b; Hare, 1994). In summary, these are; reduction of state participation in the economy; reduction of government operating deficits and external debt; increased government revenues from sales of SOEs and new forms of taxation; expansion of domestic equity ownership and domestic capital markets; encouragement of domestic investment, foreign direct investment and the return of flight capital; and the stimulation of efficiency, quality, competitiveness, exports, growth and employment.

In pursuit of these objectives, the growth of Privatization in Poland has occurred through 'privatization proper' and 'growth privatization' (Shaffer, 1993). The former is the sale of SOEs while the latter is the outcome of strong growth among newly-established private firms. Success has been substantial but irregular with progress generally varying inversely with firm size. 'Privatization proper' has been relatively slow. Less than 33% of the 8315 SOEs existing at the end of 1991 (East European, 1992) had entered the privatization process by mid-1993 (Shaffer, 1993).

The most successful mode of privatization has been 'growth privatization' or organic growth

(Gomulka and Jasinski, 1994) involving the formation of new businesses by Polish and/or foreign private investors. Most of the growth has occurred in small, very small and medium-sized firms. By 1992, there were 1.5 million private businesses in Poland including 45 000 joint-stock companies, 4800 joint ventures and 17 300 co-operatives (Hooley et al., 1993). By 1993, the number of joint ventures had expanded to 11 500 and the private sector accounted for 50% of GDP and 60% of total employment (Buckley and Ghauri, 1994; Gomulka and Jasinski, 1994). It is estimated that all of Poland's GDP growth since 1991 has been in the private sector (Shaffer, 1993).

Despite the strong progress made toward privatization in Poland, the process, as in other Central and Eastern European countries, has been impeded by economic, social and political constraints (Gomulka and Jasinski, 1994; Healey, 1994; Thomas, 1993; Tietz, 1994). Some of the macro-economic problems were outlined above while infrastructural and managerial shortages have been discussed elsewhere (Kraljic, 1990; McDonald, 1993; Naor, 1994; Shipley and Fonfara, 1993). Successive weak and unsteady governments have been limited in the extent to which they could implement privatization (Lieberman, 1993) as the entrenched power structures strongly resisted change (Tietz, 1994). Moreover, the fight to retain power and gain potential wealth by the former communist elite lead to widespread illegal appropriation of assets in Poland (Lieberman, 1993). In addition, although many managers and workers have participated in the ownership of industry, many others are fiercely opposed to the further demise of state ownership (Hare, 1994; Krawczyk and Lopez-Lopez, 1993; Shaffer, 1993).

3. Research objectives and hypotheses

The main objectives of this study are to assess whether and how the marketing capabilities and activities of recently privatized Polish firms differ from those of existing SOEs and to explore whether and how the profit performance of privatized firms differs from that of SOEs. A set of testable hypotheses were developed as follows.

The objectives of the government in pursuing the privatization of state-owned assets fall into two main categories: the encouragement of the a more competitive economy that can survive and thrive in the world economic system; and the off-loading of liabilities from state ownership. The role of privatization in the former lies chiefly in the motivation of managers and the encouragement of innovation and growth (Estrin, 1994a). The extent to which this has been achieved, however, is questionable.

From the perspective of the SOE, there can be a number of attractions of being privatized. These include freedom of action from state control, the injection of private capital and the injection of private sector managerial expertise. More specifically, privatization might be expected to enhance the competitive capabilities of the firm in its chosen market place. Again, however, the extent to which these potential benefits have been achieved will vary.

All companies in Poland are confronted by macro-economic instability, political uncertainty and a range of other environment developments. The latter include intensifying domestic and international competition; increasingly demanding, selective and fragmenting customer segments; more rapid technological advance; shortening product life cycles; and growing channel power (Hooley, 1993). In these circumstances, it is expected that SOEs encumbered by sluggish administrative procedures, inefficiency and employee opposition to change (Lieberman, 1993) are less flexible than private companies. In most SOEs there has been little change in the composition of the management since the advent of the reform programme. Moreover, management attitudes and levels of expertise have changed little since the state ceased setting directives concerning production targets which caused the production volume orientation to be pervasive (Estrin, 1994b; McDonald, 1993; Shipley and Fonfara, 1993; Svetlicic and Rojec, 1994). Conversely, most private firms have been founded recently to exploit the changing environment (Arendarski et al., 1994; Gomulka and Jasinski, 1994; Shaffer, 1993). They can be expected, therefore, to have organized their companies to more closely fit the new market conditions. Time and infrastructural deficiencies have constrained the incidence of formal marketing training in Poland (Buckley and Ghauri, 1994; McDonald, 1993). Nevertheless, the profit motive and the entrepreneurial attitudes of private owners are expected to enhance their focus on meeting market needs. Similarly, it is anticipated that new private owners of privatized SOEs have injected some awareness of the risks of production orientation and promoted the benefits of market orientation as conventionally perceived. These considerations lead to the first hypothesis:

H1: *There is a greater adoption of a customer orientation among privatized firms than among state-owned enterprises.*

The removal of restrictions on imports and domestic competition after 1989 created unprecedentedly harsh competitive conditions against which SOEs had been previously cocooned. Under the production volume orientation the managers of these firms had no incentive to pursue profits or long-term market position development. Since their attitudes are slow in changing and because of their inefficiency and poor competitiveness (Estrin, 1994a; Lieberman, 1993) it is expected that the strategic priorities of SOEs centre on defence and survival in the new market conditions. Similarly, privatized firms operating in competitive markets need to build and sustain competitive capability to thrive. Privatized firms need to redress inherited low levels of competitiveness. Moreover, private enterprise is driven by the profit motive. Hence, it is presumed that private owners invested in SOEs after identifying profitable opportunities. It is therefore expected that they then set more aggressive strategic priorities to build market position for long-term profitability:

H2: *There is a higher incidence of strategic priorities for long-term market position gain among privatized firms than among state-owned enterprises.*

Innovation can be a central element in the building of market position (Aaker, 1992; Doyle, 1994). It is probable, therefore, that the new environment opportunities and threats in Poland have encouraged both private and public firms to innovate. However, it is expected that endeavours to redress high levels of inefficiency among SOEs lead to high proportions of NPD resources being absorbed in process innovation.

Alternatively, growth and profit aspirations among firms with private involvement are expected to result in proportionately larger allocations of innovation budgets to the development of new end products:

H3: *There is a higher incidence of new product development among privatized firms than among state-owned enterprises.*

Differences are also expected in the quality levels of public versus private firms. Inferior product and service quality is a characteristic of SOEs (Lieberman, 1993). Conversely, if privatized firms are more committed to product innovation, it is also expected that these firms will occupy relatively high quality positionings to differentiate offerings from rivals and to satisfy more demanding customers (Hooley, 1993):

H4: *There is a higher incidence of high relative product quality offerings among privatized firms than among state-owned enterprises.*

Coupled with higher quality positionings in the market place it might be expected that privatized firms see greater advantage in investing in brand and company reputation building (Aaker, 1991) than SOEs:

H5: *There is a greater tendency to build competitive advantage on the basis of company and brand reputation among privatized firms than among SOEs.*

It could be expected on the arguments of this section that neither public nor private firms in Poland achieve high levels of profits. Inferences are that SOEs are investing to build competitiveness while private firms are investing for growth. Low or negative profitability in the public sector does have important implications for the state. However, poor profitability is traditional in Polish SOEs (Lieberman, 1993) and given their slow pace of attitudinal change (McDonald, 1993), profitability is not expected to be a prime objective among managers in this sector (Estrin, 1994b). Conversely, profit is the raison d'être for, and a necessary condition of survival, in private enterprise. It is expected, therefore, that managers of firms with private participation pursue objectives for profit. It is also expected that the hypothesised relatively strong competitive positions of these firms enables them to achieve profits:

H6: *Privatized firms perform better than state owned enterprises on both financial and market based criteria.*

4. Research methodology

Data were collected in an ongoing longitudinal study of the evolution of marketing and company development in Poland and other central European countries. The methodology described here is confined to the most recent Polish research although similar methodologies were used in neighbouring countries (Hungary, Bulgaria and Slovenia). The Polish project was planned and executed by a team consisting of both native Polish and western European marketing academics. All stages of the data collection process were conducted in the Polish language by Polish professors and the various research instruments utilised were tailored to fit the local culture, marketing terminology and level of marketing understanding.

The fieldwork was undertaken in two phases. The first phase consisted of a series of in-depth case studies undertaken in 1995 with 12 firms that had gone through the privatization process between 1990 and 1994. Firms came from a wide variety of industries including brewing, surgical instruments, water meters, glass working, chemicals, industrial construction and financial services. The purposes of these exploratory studies were to identify motivators for the privatization process and assess the extent to which they had been achieved to date. They were also used to develop and test questions for use in more representative, quantitative surveys.

Based on the in-depth case studies, and the literature review, a detailed questionnaire was constructed for use in mailed surveys. The findings presented in this paper are drawn from the mailed survey results. The final research instrument was tested for remaining communication barriers among a different panel of Polish managers. No further modifications were found to be necessary. The final questionnaire contained 41 questions mainly seeking multiple-choice answers or scale position selections.

The postal survey was administered in autumn 1996. A mailing list of 2000 companies which was representative by sectoral contributions to Polish GDP and by size of firm was obtained from the Polish Chamber of Commerce. Three waves of the questionnaire were mailed at three-weekly intervals to CEOs. A range of prescribed techniques (Jobber, 1986) was applied to enhance the response rate. In addition to the multiple mailings, these included information about the importance of the research to the development of the Polish economy, the role of the European Commission in the research, provision of a paid reply envelope, access to the findings, a plea to altruism, assurance of confidentiality and/or an opportunity for anonymity.

By the cut-off date in late December 1996 a total of 401 replies had been received, representing a response rate of 20%. Given the difficulties of obtaining responses to mailed surveys in Poland, and the relative newness of marketing concepts and ideas, the response rate was encouraging. While generalizations to the entire population of Polish firms should be made with caution, the direct comparability of the sub-samples of current state-owned enterprises (SOEs) and privatized former state-owned enterprises, is robust. For the purposes of the present study, two sub-samples were selected for analysis. These comprised 92 SOEs and 124 privatized former SOEs. The remaining firms in the original sample (21 joint ventures of state and private companies, 121 firms with some foreign participation through international joint ventures or greenfield investments, 29 domestic start-ups, and 14 unclassified) were excluded from these analyses so as to ensure comparisons reflected the influence of privatization only. Statistical comparisons were by chi-square and *t*-test analysis, as appropriate. No statistically significant differences were detected in terms of firm size, industry sector or product/market type between the sub-samples.

5. Research findings

5.1. Sample compositions

Each of the sub-samples contains a broad spread of firms by industry, product class and size. The two most frequent classes in both the samples are industrial capital goods and fast moving consumer goods (FMCG). In line with population statistics a high proportion of respondent firms are in manufacturing. Finally, the sub-samples are relatively evenly split between small, medium and large enterprises, the largest single group, however, being the smaller firms employing less than 100 people.

5.2. Motivations for privatization

The importance of a number of motivators of privatization, from the perspectives of both government and firms, and the extent to which each has been achieved by the privatization process to date, were assessed. A list of potential motivators was derived in part from the literature (see, for example, Estrin, 1994a) and in part from responses elicited during the indepth interviews and case studies.

The most important motivators for the government centered around encouraging the transition to a market-led economy, encouraging competition, and modernisation. Improving the skills of management was also considered very important, most notably general management skills, financial management skills, entrepreneurial skills and marketing skills. There was, however, wide variation in the degree to which each of these motivators or objectives has been achieved. Most progress has been made in encouraging the transition to a market-led economy, but other objectives have typically only been partly achieved. The most significant shortfalls appear in the achievement of the encouragement of managerial skills, where typically less than one-fifth of respondents rate these objectives as largely achieved. The lowest levels of achievement lie in areas of most direct relevance to the population as a whole: in reducing monopoly supply and improving availability of goods and services. Coupled with this the relatively little impact on international competitiveness (and the consequent effects on trade balances and the value of the Polish currency) is likely to have a negative effect on living standards at least in the short term.

The motivations driving SOEs to seek privatization were also examined. As anticipated, the major motivator for the managers of the SOE is freedom from government control. Also very important are the injection of managerial skills such as general management, production and operations, financial management, sales, entrepreneurship and marketing and the injection of financial resources. Again the extent to which these motivations or objectives have been achieved in the case of the firms surveyed varies, but generally achievement levels are more closely aligned with importance levels than at the macro, governmental level discussed above. Freedom has been largely achieved, but the injection of managerial expertise falls somewhat shorter ranging from a low in the case of marketing to a high in the case of finance. Injection of financial resources is the only area in which achievements exceed importance.

5.3. Changes in resources and capabilities

Critical to the success of the recently privatized firms will be the new resources and capabilities they

Table 1
Changes in resources and capabilities following privatization (opinions of CEOs of privatized SOEs)

	Privatized SOEs ($n = 106$)
Our company reputation has been enhanced	58.5%
We now have greater credibility with our financers	55.2%
We now have greater credibility with our customers	50.0%
Our production and operations capability is enhanced	49.1%
Our relationships with customers is enhanced	46.7%
We now have access to greater financial resources	41.3%
Our relationships with suppliers is enhanced	40.6%
Our NPD capability is enhanced	34.0%
Our market research capability is enhanced	30.8%
We have access to new marketing skills	21.9%
Our relationships with distributors is enhanced	21.0%
We have access to new entrepreneurial skills	20.8%
Our relationships with other related companies is enhanced	20.0%
We have access to new brands	15.2%
There has been no real change	12.5%

have available to deploy in the more competitive market place they now operate in. Table 1 shows the changes in resources and capabilities reported by CEOs. In contrast to the achievement of privatization objectives an encouraging set of changes in resources appears to have taken place.

The most significant changes appear to be related to the image of the firms involved. Over half reported that their reputation has been enhanced by becoming a private company, their credibility with their financiers has been improved as has their credibility and relations with their customers. Significant improvements in production and operations capability were reported, together with enhanced financial resources.

Marketing related capabilities were, however, generally less affected than the above. Around one third reported enhanced new product development capability (34%), enhanced market research capability (31%), and only one fifth enhanced general marketing skills (22%). Improved entrepreneurial skills were also relatively low in the list at 21%.

In summary, while resources and capabilities do appear to have been significantly improved through the privatization process these often seem to be more at the psychological level (in terms of image and credibility) than at the operational level.

Attention now turns to examining the differences in marketing approach and activities of the newly privatized firms compared to their counterparts that remain in state ownership.

5.4. Strategic orientations

Respondents were asked to assess a number of descriptors of business orientations and to indicate that closest to the approach adopted by their companies. These statements were derived through the literature on business orientation (see, for example, Hooley et al., 1990) and modified as a result of the in-depth interviews. In particular the in-depth interviews identified a relatively large number of firms who placed provision of gainful employment high on their list of priorities, an orientation not apparent in the western market orientation literature (e.g., Kohli and Jaworski, 1990; Narver and Slater, 1990). Contrary to H1, the results show no statistically significant differences between SOEs and privatized SOEs in their orientation across all five alternatives. Across the two samples around two-fifths (42%) profess to adopt a customer orientation, one fifth (21%) adopt a product orientation and the remainder adopt an employee orientation (17%), an efficiency orientation (12%) or a selling/advertizing orientation (9%). In other words it seems that, contrary to expectations, the act of privatization does not significantly impact on business orientation (Table 2).

Further analysis of these results included comparison with findings from a previous survey by the authors (see Hooley et al., 1993) where only 21% of all Polish firms surveyed in 1992 identified with the customer orientation statement. The conclusion emerges that there has been a general increase in

Table 2
Approach to doing business
Which of the following best describes your company's approach to doing business? You may identify with several of the statements below but please select the one you think BEST summarises your overall approach.

	Total sample ($n=198$)	SOEs ($n=86$)	Privatized SOEs ($n=112$)
Identify the demands and requirements of customers and ensure our products and services meet them	42.4%	38.4%	45.5%
Endeavour to offer the best technical product in our industry	20.7%	22.1%	19.6%
Organize our activities in such a way as to provide security and continuity of employment for our staff and employees	16.7%	18.6%	15.2%
Concentrate on manufacturing efficiency to achieve low unit costs to sell our products at lowest possible prices	11.6%	12.8%	10.7%
Use selling and advertizing to help sell our products and services	8.6%	8.1%	8.9%

Chi = 1.28, ns

customer orientation in Poland over the past four years in both the SOE and privatized sectors. This has not been brought about by privatization per-se, but is most likely to have been affected by the general economic and trading conditions of the last few years. Indeed The Economist (1997) special report on Business in Eastern Europe shows the degree of customer orientation in Poland, Hungary

Table 3
Marketing strategy

	Total sample ($n = 216$)	SOEs ($n = 92$)	Privatized SOEs ($n = 124$)
Strategic priorities—last two years			
Survival	49.5%	67.0%	36.6%
Good short-term financial returns or profits	17.8%	8.8%	24.4%
Long-term building of market position	32.7%	24.2%	39.0%
Chi = 20.48, significant = 0.001			
Strategic priorities—next two years			
Survival	14.0%	20.9%	8.9%
Good short-term financial returns or profits	16.3%	15.4%	16.9%
Long-term building of market position	69.8%	63.7%	74.2%
Chi = 6.32, significant = 0.05			
Product quality compared to competitors			
Higher quality	28.0%	15.4%	37.4%
Similar or lower quality	72.0%	84.6%	62.6%
Chi = 12.56, significant = 0.001			
We actively develop new products to lead the market			
Agree	55.6%	47.8%	61.3%
Disagree / no opinion	44.4%	52.2%	38.7%
Chi = 3.88, significant = 0.05			
We have a competitive edge in product design			
Agree	18.5%	10.9%	24.2%
Disagree / no opinion	81.5%	89.1%	75.8%
Chi = 6.21, significant = 0.05			
We have a competitive edge in after sales service			
Agree	10.2%	5.4%	13.7%
Disagree / no opinion	89.9%	94.6%	86.3%
Chi = 3.95, significant = 0.05			
We have a competitive edge in technical product quality			
Agree	25.0%	18.5%	29.8%
Disagree / no opinion	75.0%	81.5%	70.2%
Chi = 3.64, significant = 0.05			
We have a competitive edge in company and brand reputation			
Agree	38.0%	29.3%	44.4%
Disagree / no opinion	62.0%	70.7%	55.6%
Chi = 5.05, significant = 0.05			

and the Czech Republic all very close to the average for middle-income developed countries. H1 is, however, rejected.

5.5. Marketing strategy dimensions

Comparative findings concerning elements of marketing strategy are presented in Table 3. The results support ($p = 0.001$) H2, 'there is a higher incidence of strategic priorities for long-term market position gain among privatized firms than among state-owned enterprises'. Across the full sample the majority (50%) report survival priorities over the last two years, one-third (33%) market position building priorities and the remainder (18%) short-term financial returns. The survival priorities are most marked among SOEs where two thirds (67%) report these compared with one-third (37%) of privatized firms and reflect the continued difficult trading conditions in Poland during the period under review (1993–1995). The period was characterized by political turbulence, high inflation, rising unemployment and general business uncertainty in Poland. Further, it was the period in which many of the joint ventures and private companies were being formed.

Conversely, the privatized firms are most likely to adopt market position building priorities (39%) but also more likely than SOEs to be pursuing short-term financial gains. Given the commercial realities for private firms, shorn of government support and funding, these findings are in line with expectations. H2 is supported.

For the next two years, however, the majorities of all the samples (70%) expect to transfer their strategic priorities to long-term market position gain. The emphasis on the long term is still most significant among the privatized SOEs.

The findings provide support ($p = 0.05$) for H3, 'there is a higher incidence of new product development among privatized firms than among state-owned enterprises'. While the majority of all firms surveyed (56%) report a pro-active approach to new product development, actively developing new products to lead their markets, agreement was highest among privatized SOEs who perhaps see the need for innovation as a means of differentiation more acutely than their state-owned counterparts.

Overall, these findings are encouraging since they suggest that large numbers of Polish firms, public as well as private, are using innovation to respond to opportunities arising in the new market conditions.

A similar level of support obtains ($p = 0.05$) for H4, 'there is a higher incidence of high relative product quality offerings among privatized firms than among state-owned enterprises'. Majorities of both sub-samples supply products with comparable quality to their competitors. Nevertheless, a substantial minority of firms in each offers above average quality and this is considerably more marked among the privatized firms (37%) and least apparent among the SOEs (15%). In addition significant differences were found in the competitive advantage, or edge, claimed by respondents. Significantly more privatized firms claims to have built competitive advantage on the basis of technical product quality (30% vs. 19%), product design (24% vs. 11%) and after sales service (14% vs. 5%). All these factors, together with the greater emphasis on NPD (above), suggest attempts to position their offerings as superior to those of competitors. No differences were found between the two samples with respect to price positioning. H4 is supported.

Finally on strategy issues, there was support ($p = 0.05$) for H5 'there is a greater tendency to build competitive advantage on the basis of company and brand reputation among privatized firms than among SOEs'. While 38% of the combined sample claimed a competitive advantage based on company and brand reputation this was most marked among the privatized firms (44%) compared with the SOEs (29%). This also links with the findings in Table 4 that reputation and image have been enhanced through privatization, and the findings above that positionings have been built on the basis of superiority of offerings rather than cut prices. H5 is supported.

5.6. Performance

Respondents were asked to rank a number of criteria used for measuring performance derived from the strategy literature and from the preliminary in-depth research: overall profit achieved; sales volume; market share; return on investment; cash flow; unit costs of production; and providing gainful employment for the local population. The rankings by SOEs were compared with the rankings by privatized firms (Table 4).

Table 4
Performance

Importance of performance measures (percent ranking item 1st or 2nd most important measure of performance)	Total sample ($n=216$)	SOEs ($n=92$)	Privatized SOEs ($n=124$)
Overall Profit Achieved[a]	55.1%	43.5%	63.7%
Sales Volume[ns]	52.8%	52.2%	53.2%
Market Share[ns]	25.9%	28.3%	24.2%
Return on Investment (ROI)[ns]	27.8%	26.1%	29.0%
Cash Flow[ns]	50.5%	53.3%	48.4%
Unit Costs of Production[ns]	24.1%	27.2%	22.8%
Providing gainful Employment for the local population[b]	17.1%	23.9%	12.1%
Performance relative to objectives	($n=210$)	($n=91$)	($n=124$)
Better profit than our original objectives[a]	31.9%	20.9%	40.3%
Better sales volume than our original objectives[b]	36.8%	27.5%	43.8%
Better market share than our original objectives[a]	26.2%	15.7%	34.6%
Better ROI than our original objectives[ns]	27.6%	22.7%	31.3%
Better cash flow than our original objectives[ns]	25.4%	23.6%	26.7%
Better unit costs of production than our original objectives[ns]	21.6%	23.0%	20.5%
Better provision of gainful employment to the local population than our original objectives[ns]	17.2%	13.8%	20.0%
Return on investment in last financial year	($n=205$)	($n=90$)	($n=115$)
We made a loss	16.1%	24.4%	9.6%
We broke even	7.8%	11.1%	5.2%
ROI 1–9%	55.1%	51.1%	58.3%
ROI 10% or more	21.0%	13.3%	27.0%
Chi = 14.12, significant = 0.01			

[a] Significant at 0.01 level.
[b] Significant at 0.05 level.
[ns] Not statistically significant.

Across the sample as a whole, the most important performance measure was overall profit achieved. This was ranked first or second most important by over half (55%) of respondents. Also important were sales volume (53%) and cash flow (51%). Least important across the sample was the provision of gainful employment.

Two differences emerged between the SOEs and the Privatized SOEs with regard to importance attached to the performance measures. While both sets of firms put overall profit as important the privatized firms rated this significantly higher than the SOEs. Nearly two-thirds of the former (64%) rated profit first or second most important factor compared with less than half (44%) of SOEs (significant using t-test at 0.01 level). The only other factor where there was a statistically significant difference in ranking was provision of gainful employment which was rated first or second by 24% of SOEs compared with 12% of privatized firms (significant using t-test at 0.05 level). This factor was, however, the least important factor of the seven listed for SOEs as well as privatized firms.

Table 4 presents data concerning the performance of the firms in the two groups. First, performance is compared against original objectives across all seven important criteria. Second, levels of return on investment are presented. Significant differences emerged with regard to performance in terms of overall profit, sales volume and market share. No significant differences were observed across the other criteria. The results support ($p=0.05$ and 0.01) H6, ‘privatized firms perform better than state owned enterprises on both financial and market based criteria’. While around one-third (31%) of all firms claimed to have performed better than their objectives in profit terms, this was most marked among the privatized SOEs at 40% compared with the current SOEs at 21%. Similarly, the privatized SOEs were more likely to perform better than objectives on sales volume (44% versus 28%) and market share (35% versus 16%).

The lack of significant difference in terms of providing gainful employment is surprising, suggesting that keeping firms in state ownership does not significantly protect employment. Indeed, in a subsequent question respondents in each group were asked whether they had been able to increase their employment provision over the last year. Significantly more of the privatized SOEs reported having done so (31% versus 17%, significant at 0.05 level using *t*-test).

On actual return on investment achieved the privatized firms were again found to outperform their state-owned counterparts. While 35% of SOEs made a loss or at best broke even, the comparative figure for the privatized firms was 15%. At the higher financial performance levels 27% of privatized firms achieved ROI greater than 10% compared with 13% of SOEs. H6 is supported.

These differences may be attributable to either higher inefficiency levels among SOEs (Lieberman, 1993) and/or to the superior effectiveness indicated in the results for privatized firms. Further, as financial performance is one of the prime measures of success in a free market economy, these results indicate that many of the privatized firms are coping well, despite their relative newness. Moreover, since the performance levels pertain to a period of environmental turbulence and since many of the respondents were then following survival priorities, the results augur well for the longer-term when firms can expect to be facing less market turbulence.

6. Discussion

Despite lingering macro-economic problems, Poland's achievements on liberalization, privatization and economic growth are impressive. However, social and political resistance to further reform in Poland could cause the successes of privatization to be minimised. Against this, it was announced in December 1994 that Poland could be admitted to the European Economic Union within 10 years and enlargement eastwards is a major agenda item for Britain's presidency of the Union during the first half of 1998. If this occurs, conventional wisdom would hold that privatization would need to be completed in the near future to allow Polish firms sufficient time to build adequate competitive capabilities.

An early solution to the privatization debate is thus required. Economists have advanced powerful theoretical arguments to support privatization, especially on the grounds of efficiency, competitiveness and growth, while social commentators have pointed to the resultant high levels of inflation and unemployment. However, there has been no systematic empirical investigation to determine the effects of privatization on business behaviour and performance in Central and Eastern Europe.

This paper has examined the motivations and objectives of privatization from the perspectives both of the Polish government and of the state-owned firms themselves. While government objectives appear at best to have been only partly achieved, the degree of success at the firm level more closely matches the importance of the factors. Government objectives are most clearly embedded in encouraging the transition to a market-led economy and improving international competitiveness through the injection of private capital and managerial expertise. Firm objectives lie more specifically in securing freedom of action from government control and injecting commercial managerial skills.

Competencies and capabilities of firms that have been privatized are believed by responding CEOs to have been significantly enhanced. The major changes, however, appear to be in the psychological boost that being a private entity creates, specifically the enhanced reputation and standing of the firm amongst its financiers and customers. There has been relatively less change in terms of the general managerial and specific marketing skills brought into operation.

The paper also developed and tested six hypotheses concerning differences in marketing capabilities, activities and performance among SOEs and recently privatized firms in Poland. There is much scope for improvement among both of the samples, most notably in regard to business orientations. Contrary to expectations privatization does not appear to heighten customer orientation. However, compared to the

SOEs studied, the privatized firms do exhibit greater marketing capability and pursue more long term, market building strategic priorities. Differences were also found in NPD approaches, relative product quality levels and approaches to building competitive advantage. In addition both the financial and market performance of privatized firms was found to be superior to SOEs.

The overall conclusion of this study is that private ownership of industry in Poland appears to be enhancing the marketing behaviour and performance of enterprises. A corollary is that if this is sustained it can be expected to help modernise Poland's industrial base and in the long-term to substantially improve its GDP and the living standards of its people. In the short term, however, the privatization program has contributed to unprecedented levels of inflation and unemployment, though both appear now to be stabilising and, the latter at least, falling to more normal levels.

It should be noted that this study has addressed the effects of privatization on the behavior and performance of firms. It has not directly attempted to assess the impact of privatization on employees or consumers. Unemployment rates have been seen to rise during the early 1990s then fall to western European levels by 1997. The degree to which changes in employment rates can be attributed to the privatization process per se is, however, unclear. It does appear that one of the early effects of privatization has been the increased flexibility of firms to reduce labor costs through downsizing. Equally, however, economic growth has been a major factor in the more recent reduction of unemployment and the privatized firms appear to be taking on new employees faster than the SOEs. Given the freedom of action of these privatized firms it is to be anticipated that the new jobs created are based more firmly on market requirements than on social considerations. That said, however, working conditions under the newly privatized firms, wages and stress levels are all important issues that could form the focus for future research into the effects of privatization.

Similarly, the study did not directly assess the impact on consumers of privatization. There is some evidence that privatization has increased the availability of goods and services to some extent but there is still some way to go. In addition the Polish consumer has become increasingly demanding in both the quality and price competitiveness of products bought. In a separate part of the study, 98% of respondents agreed that customers are increasingly demanding better quality and reliability, 98% agreed that there is increasing customer choice available, 94% agreed that new products and services are coming to market more quickly than in the past and 77% agreed that new market segments are emerging with different needs and expectations that must be fulfilled. Overall, The Economist (1997) concluded that living standards in Poland are high, and that a Pole on a monthly salary of US$1000 does not have much less disposable income than a western European earning three times that level. This is due to the still low prices of non-traded goods, such as housing and public transport and the increases in both the quality and quantity of goods and services available heightening competition for sales. A further avenue for future research would be to more fully assess the effects of privatization from a consumer perspective.

In interpreting the findings of this study, a number of limitations should be born in mind. First, the quantitative analyses are based on a mailed survey with a response rate of one in five. While this rate is not unusual in similar studies (see Hart, 1987), and no systematic biases were detected with respect to industry sector or firm size, it is to be expected that the more strategically literate chief executives will be most likely to respond. If anything the results overstate the application of commercial marketing approaches and techniques in Poland. Second, the survey relied on self reporting by chief executives. While every attempt was made to avoid value laden questions, including guaranteeing anonymity of reply, careful individual question wording and pre-testing of scales, it is possible that CEOs will have over-claimed on performance factors. While these are limitations to the overall generalisability of the results to the wider population of Polish firms, they are not likely to affect comparisons of SOEs and privatized firms where such tendencies are equally probable.

Finally, a major opportunity for future researchers lies in monitoring further developments in Poland and its neighbours. In particular, researchers in marketing have an opportunity to do what was achieved only on an ad hoc and post hoc, basis in the West, namely to track the evolution of market orientation and practice over a prolonged period including and after its genesis. The resulting deeper understanding could be used to enrich marketing theory and might lead to an acceleration of marketing development in relevant countries.

7. Notes

Additional tables showing macro-economic performance indicators for Poland, sample composition and comparison with known population statistics, and analyses of motivations of government and SOEs in pursuing privatization are available from the corresponding author on request.

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